ST. GEORGE LIFE LIMITED

ABN 88 076 763 936

Annual Report

For the year ended 30 September 2018

ST. GEORGE LIFE LIMITED

CONTENTS

This financial report covers St. George Life Limited (the Company) as an individual entity. The financial report is presented in Australian dollars.

St. George Life Limited is a company limited by shares, incorporated and domiciled in Australia.

The financial report was authorised for issue by the Directors of the Company on 12 December 2018. The Directors have the power to amend and reissue the financial report. The Company's registered office is:

Level 18, Westpac Place
275 Kent Street
Sydney NSW 2000

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DIRECTORS' REPORT

The Directors of St. George Life Limited (the Company) present their report together with the financial statements of the Company for the financial year ended 30 September 2018.

Directors

The following persons were Directors of the Company during the period since 1 October 2017 and up to the date of this report unless otherwise stated:

Justin Breheny
Helen Conway
Allan Griffiths
Susan Houghton
Yvonne Le Bas
Lindsay Smartt

Principal activities

The principal activities of the Company during the financial year ended 30 September 2018 were the provision of a range of life insurance products, including risk and investment policies.

Operating and financial review

On 1 September 2018, the Company transferred its business to Westpac Life Insurance Services Limited (WLISL) (a related life insurance entity), pursuant to a scheme under Part 9 of the Life Insurance Act 1995, as part of a program of work to simplify the regulatory structure and to improve operational efficiency. Details of the Part 9 scheme are provided in Note 22. The Company intends to apply to the Australian Prudential Regulation Authority (APRA) to cancel the Company's Life Insurance Licence and then subsequently to deregister the company with the Australian Securities and Investment Commission (ASIC) and consequently is no longer considered a going concern.

The net profit attributable to equity holders of the Company for the financial year ended 30 September 2018 was a decrease of 21% to $7,535 thousand (2017: $9,590 thousand). The company experienced a decrease in profit predominantly due to a decrease in net life insurance premium revenue to $25,745 thousand (2017: $38,942 thousand) offset by 33% decrease in net life insurance claim expense to $7,671 thousand (2017: $11,367 thousand).

Dividends

Details of dividends paid in respect of the Company for the current financial year are disclosed in Note 18.

Significant changes in state of affairs and events during and since the end of the 2018 financial year

There were no other significant changes in the state of affairs of the Company during the year except for those stated in the "Operating and financial review" section of this report.

The Directors are not aware of any matter or circumstances that have occurred since the end of the financial year that has significantly affected or may significantly affect the operations of the Company, the results of its operations or the state of affairs of the Company in subsequent financial years.

Developments and expected results

As all policies were transferred to WLISL pursuant to a scheme under Part 9 of the Life Insurance Act 1995, the Company will no longer trade.

Shares or interests

No shares or options were issued or granted by the Company to the Directors during the financial year ended 30 September 2018.

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DIRECTORS' REPORT (CONTINUED)

Indemnities and insurance

Under the Constitution, the ultimate parent entity, Westpac Banking Corporation (Westpac), unless prohibited by statute, indemnifies, each of the Directors and Company Secretaries of Westpac and of each of its related bodies corporate (except related bodies corporate listed on a recognised stock exchange), each employee of Westpac or its subsidiaries (except subsidiaries listed on a recognised stock exchange), and each person acting as a responsible manager under an Australian Financial Services Licence of any of Westpac's wholly-owned subsidiaries against every liability (other than a liability for legal costs) incurred by each such person in their capacity as director, company secretary, employee or responsible manager, as the case may be; and all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil or criminal or of an administrative or investigatory nature, in which the person becomes involved because of that capacity.

Each of the Directors named in this Directors' report and each of the Company Secretaries has the benefit of this indemnity.

Westpac also executed a deed poll in September 2009 providing indemnification equivalent to that provided under the Westpac Constitution to individuals acting as directors and other statutory officers of wholly-owned subsidiaries of Westpac (including the Company).

Under the September 2009 deed poll, Westpac also agrees to provide directors' and officers' insurance to Directors of Westpac and Directors of Westpac's wholly-owned subsidiaries.

For the year ended 30 September 2018, Westpac and the entities it controls (Westpac Group) has insurance cover which, in certain circumstances, will provide reimbursement for amounts which the Westpac Group or the Company has to pay under the indemnities set out above. That cover is subject to the terms and conditions of the relevant insurance, including but not limited to the limit of the indemnity provided by the insurance. The insurance policies prohibit disclosure of the premium payable and the nature of the liabilities covered.

Proceedings on behalf of the Company

No application has been made and no proceedings have been brought or intervened in on behalf of the Company under section 237 of the Corporations Act 2001.

Environmental disclosure

The operations of the Company are not subject to any significant environmental regulation under any law of the Commonwealth of Australia or of any state or territory of Australia. The Company has not incurred any liability (including for rectification costs) under any environmental legislation.

Rounding of amounts

The Company is an entity to which ASIC Corporations Instrument 2016/191 dated 24 March 2016, relating to the rounding of amounts in directors' reports and financial reports, applies.

Pursuant to this Instrument, amounts in this Directors' report and the accompanying financial report have been rounded to the nearest thousand dollars, unless indicated to the contrary.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4 and forms part of this report.

Signed in accordance with a resolution of the Board.

Director

Director

Sydney 12 /12/2018

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Auditor's Independence Declaration

As lead auditor for the audit of St. George Life Limited for the period 1 October 2017 to 30 September 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

R Balding
Partner
PricewaterhouseCoopers

Sydney
12 December 2018

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ST. GEORGE LIFE LIMITED

Statement of profit or loss and other comprehensive income for the year ended 30 September 2018

	Note	2018 $'000	2017 $'000
Premium revenue from life insurance contracts	3	33,578	47,867
Less: insurance premiums ceded to reinsurers	3	(7,833)	(8,925)
Net life insurance premium revenue		**25,745**	**38,942**
Investment income	4	1,001	1,090
Total revenue and investment income		**26,746**	**40,032**
Life insurance claims expense	5	11,918	18,365
Less: reinsurance recoveries revenue		(4,247)	(6,998)
Net life insurance claims expense		**7,671**	**11,367**
(Decrease)/increase in net life insurance contract liabilities	13(b)	(5,519)	1,517
Decrease in net life investment contract liabilities	13(b)	(16)	(31)
Other expenses	6	13,817	13,478
Total other costs and expenses		**8,282**	**14,964**
Net claims and expenses		**15,953**	**26,331**
Profit before income tax		**10,793**	**13,701**
Income tax expense	8	(3,258)	(4,111)
Net profit for the year		**7,535**	**9,590**
Other comprehensive income		-	-
Total comprehensive income for the year attributable to owners of St. George Life Limited		**7,535**	**9,590**

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

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ST. GEORGE LIFE LIMITED

Balance sheet as at 30 September 2018

	Note	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents	24(a)	3,053	4,206
Financial assets at fair value through profit or loss	9	12,659	55,831
Trade and other receivables	10	24	2,358
Reinsurers' share of life insurance contract liabilities	13(b)	-	3,212
Deferred tax assets	11	-	-
Total assets		**15,736**	**65,607**
Liabilities			
Trade and other payables	12	14	2,804
Life insurance contract liabilities	13(b)	-	(825)
Life investment contract liabilities	13(b)	-	39
Provisions	15	-	-
Total liabilities		**14**	**2,018**
Net assets		**15,722**	**63,589**
Shareholders' equity			
Share capital	16	15,000	15,000
Retained profits	17	722	48,589
Total shareholders' equity		**15,722**	**63,589**

The above balance sheet should be read in conjunction with the accompanying notes.

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ST. GEORGE LIFE LIMITED

Statement of changes in equity for the year ended 30 September 2018

	Note	Share capital $'000	Retained profit $'000	Total $'000
Balance at 1 October 2016		**15,000**	**49,499**	**64,499**
Net profit for the year		**-**	**9,590**	**9,590**
Net other comprehensive income for the year		-	-	-
Total comprehensive income for the year		**-**	**9,590**	**9,590**
Transaction in capacity as equity holders				
Dividends on ordinary shares	18	-	(10,500)	(10,500)
Balance at 30 September 2017		**15,000**	**48,589**	**63,589**
Net profit for the year		**-**	**7,535**	**7,535**
Net other comprehensive income for the year		-	-	-
Total comprehensive income for the year		**-**	**7,535**	**7,535**
Transaction in capacity as equity holders				
Part 9 transfer	21(f)	-	(48,402)	(48,402)
Dividends on ordinary shares	18	-	(7,000)	(7,000)
Balance at 30 September 2018		**15,000**	**722**	**15,722**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

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ST. GEORGE LIFE LIMITED

Cash flow statement for the year ended 30 September 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Interest received	4	35	51
Premiums received		33,922	47,510
Insurance premiums ceded to reinsurers		(7,833)	(8,925)
Claims paid		(11,918)	(18,365)
Reinsurance recoveries received		3,421	8,111
Expenses paid		(9,779)	(14,005)
Payments to head entity under tax funding agreement		(4,638)	(4,732)
Net cash provided by/(used in) operating activities	24(b)	**3,210**	**9,645**
Cash flows from investing activities			
Proceeds from financial assets at fair value through profit or loss	9	21,837	31,119
Payments for financial assets at fair value through profit or loss	9	(17,996)	(30,518)
Net cash provided by/(used in) investing activities		**3,841**	**601**
Cash flows from financing activities			
Payment of dividends	17	(7,000)	(10,500)
Part 9 transfer - Bank Account	21(f)	(1,204)	-
Net cash provided by/(used in) financing activities		**(8,204)**	**(10,500)**
Net decrease in cash and cash equivalents		**(1,153)**	**(254)**
Cash and cash equivalents as at the beginning of the year		4,206	4,460
Cash and cash equivalents as at the end of the year	24(a)	**3,053**	**4,206**

The above cash flow statement should be read in conjunction with the accompanying notes. Details of the reconciliation of net cash provided by/(used in) operating activities to net profit are provided in Note 24.

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NOTES TO THE FINANCIAL STATEMENTS

Note 1. Financial statements preparation

a. Basis of accounting

(i) General

St. George Life Limited (the Company) is a for-profit entity for the purpose of preparing the financial report.

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (AAS) and Interpretations as issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

This financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

As disclosed in the Directors' report, the Company has transferred its business to WLISL pursuant to a scheme under Part 9 of the Life Insurance Act 1995. Further, the directors intend to apply to APRA to cancel the Company's Life Insurance Licence and then subsequently to deregister the company with ASIC. Accordingly, the going concern basis of preparation is no longer appropriate and these financial statements have been prepared on a liquidation basis. No adjustments were required as a result of the financial statements being prepared on this basis.

(ii) Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by applying fair value accounting to financial assets and liabilities (including derivative instruments) measured at fair value through profit or loss.

(iii) Comparative revisions

Comparative information has been revised where appropriate to conform to changes in presentation in the current year and to enhance comparability.

In preparing the financial statements for the year ended 30 September 2018, comparatives to the cash flow statement have been restated to reflect gross proceeds and gross payments. The restatements have no impact on the profit previously reported by the Company for the year ended 30 September 2017.

(iv) Standards adopted during the year ended 30 September 2018

The Company adopted the requirements of AASB 2016-2-Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 which require additional disclosures regarding both cash and non-cash changes in liabilities arising from financing activities. These disclosures have been made in the notes to the cash flow statement. As permitted by the standard, comparatives are not required on first application.

There were no other new standards applied in 2018.

(v) Functional and presentational currency

The financial statements are presented in Australian dollars which is the Company's functional and presentation currency. The functional currency is the main currency of the economy it operates in.

(vi) Principles of life insurance business

The life insurance operations of the Company are conducted within separate statutory funds as required by the Life Insurance Act 1995 (Life Act) and are reported in aggregate with the shareholder fund in the statement of profit or loss and other comprehensive income, balance sheet and cash flow statement of the Company. The life insurance operations of the Company comprise the selling and administration of life insurance and investment contracts.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The benefit is either not linked or only partly linked to the market value of the investments held by the Company, and the financial risks are substantially borne by the Company. Any products sold that do not meet the definition of a life insurance contract are classified as life investment contracts.

Life investment contracts include investment-linked contracts where the benefit amount is directly linked to the market value of investment held in the particular investment-linked fund. While the underlying assets are registered in the name of the Company and the investment-linked policy owner has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policy owner bears the risks and rewards of the fund's investment performance. The Company derives fee income from the administration of investment-linked policies and funds.

Policy contracts that include both investment and insurance elements are separated into these two elements and reported accordingly.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

b. Revenue recognition

(i) Premium

Premiums relating to life insurance contracts with a regular due date are recognised as revenue on an accrual basis. Premiums with no due date are recognised as revenue on a cash received basis. Deposit components of life insurance and investment contracts are not revenue and are treated as movements in life insurance policy liabilities. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included in trade debtors in the balance sheet.

(ii) Investment income

Dividends trust distributions and interest income are recognised as they accrue or are receivable. The profit or loss on disposal of investments is brought to account at the date of the contract for sale.

Unrealised gains or losses on investments revalued at year end are taken to the statement of profit or loss and other comprehensive income at that date.

Interest income from bank accounts is recognised on an accrual basis using the effective interest rate method.

(iii) Reinsurance claim recoveries

Reinsurance claim recoveries are recognised as revenue as the underlying claims are incurred. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

c. Expense recognition

(i) Claims expense

Life insurance contracts

Claims incurred relate to life insurance contracts and are treated as expenses. Claims on life insurance contracts are recognised when the liability to the policyholder under the policy contract has been established, or upon notification of the insured event depending on the type of claim.

Surrenders, withdrawals and investment earnings which relate to life investment contracts are treated as a movement in life investment contract liabilities. Surrenders are recognised when the policyholders formally notify of their intention to end the policy previously entered into.

(ii) Basis of expense apportionment

Expenses are incurred in relation to the acquisition and maintenance of life insurance and life investment contracts, in addition expenses are incurred with respect to investment management and other administrative activities. Acquisition costs are the fixed and variable costs of acquiring new business, including commissions and similar distribution costs and costs of accepting, issuing and initially recording policies. Investment management costs include the costs involved with buying and selling investments and the ongoing management costs of an investment portfolio. All other expenses are considered to be policy maintenance costs incurred to administer existing life insurance and life investment contracts.

Expenses of the Company are either:

- Direct costs i.e. where they are directly attributable to life insurance and life investment products; or
- Indirect costs i.e. all other expenses relating to the acquisition, maintenance and investment management activities associated with life insurance and life investment contracts which are booked in cost centres and have been incurred in relation to more than one business activity.

  Indirect costs for life insurance and life investment contracts are apportioned across acquisition, maintenance and investment management expense categories in accordance with the requirements of Division 2 Part 6 of the Life Act. To carry out this apportionment, discussions are held with the cost centre managers to determine the proportions that relate to the various business activities. Statistics, such as policy counts, annual premiums, funds under management and claims payments, are used to apportion the expenses to individual life insurance or life investment products.

(iii) Outwards reinsurance premium

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

d. Income tax

The Company is part of a tax consolidated group, of which Westpac Banking Corporation (Westpac) is the head entity. As a consequence of tax consolidation accounting, the Company does not recognise any current tax payable balances in its own financial statements, unless the head entity is in default of its obligations, or a default is probable under the tax consolidation legislation, or the tax amounts relate to taxable income incurred prior to the implementation of the tax consolidation regime. Amounts payable or receivable under a tax funding agreement with the head entity are recognised in accordance with the terms and conditions of the agreement as tax-related amounts receivable or payable. Expenses and revenues arising under this agreement are recognised as income tax (expense)/revenue.

The Company has entered into tax funding and tax sharing arrangements with Westpac. Under the terms of the tax funding agreement, the Company reimburses Westpac for any current tax payable by Westpac in respect of the Company's activities. The Company will also be reimbursed by Westpac for any reduction in current tax payable by Westpac in respect of the Company's activities. The reimbursements are payable at the same time as the associated income tax liability falls due and have therefore been recognised as a current tax-related payable by the Company. In the opinion of management, the tax sharing agreement is a valid agreement under the tax consolidation legislation and limits the joint and several liability of the Company in the case of a default by Westpac.

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income. Current tax is the tax payable for the year using enacted or substantively enacted tax rates and laws for each jurisdiction. Current tax also includes adjustments to tax payable for previous years.

Deferred tax accounts for temporary differences between the carrying amounts of assets and liabilities in the financial statements and their values for taxation purposes. Deferred tax is determined using the enacted or substantively enacted tax rates and laws for each jurisdiction which are expected to apply when the assets will be realised or the liabilities settled. Deferred tax assets and liabilities have been offset where they relate to the same taxation authority, and where there is a legal right and intention to settle on a net basis. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available to utilise the assets.

Deferred tax is not recognised for temporary differences, where the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither the accounting nor taxable profit or loss.

e. Assets

(i) Financial assets

Recognition

Purchases and sales of financial assets are recognised on trade-date; the date on which the Company commits to purchase or sell the asset.

Classification and measurement

The Company classifies its financial assets into the following categories: cash and cash equivalents, financial assets at fair value through profit or loss, trade and other receivables and reinsurers' share of life insurance contract liabilities. Financial asset are recognised initially at fair value plus directly attributable costs.

Financial assets backing insurance liabilities

The Company has determined that financial assets held to back insurance liabilities are designated at fair value through profit or loss. As part of its investment strategy, the Company actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from insurance liabilities.

Financial assets not backing insurance liabilities

The Company has determined that financial assets held to back the shareholder funds are designated at fair value through profit or loss.

The accounting policy for each category of financial asset mentioned above and the determination of its fair value is set out below in the note for the relevant item.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the asset have expired, or when the Company has either transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full under a 'pass through' arrangement and transferred substantially all the risks and rewards of ownership.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

e. Assets (continued)

(i) Financial assets (continued)

(a) Cash and cash equivalents

For the purpose of presentation in the cash flow statement, cash and cash equivalents includes deposits at call, managed cash and bills of exchange which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

For the current and previous financial years, the cash and cash equivalents of the Company consists solely of cash on deposit with banks and other financial institutions.

(b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are composed of:

- Financial assets held for trading or those acquired principally for the purpose of selling in the short term with the intention of making a profit; and
- Financial assets designated at fair value through profit or loss at inception are those that are not held for trading purposes but may be sold when the need arises. These include investments in unlisted unit trusts which are managed and their performance evaluated on a fair value basis in accordance with the Company's investment strategy.

At reporting date, these assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss, including interest and dividend income, are included in the statement of profit or loss and other comprehensive income in the period in which they arise.

(c) Trade and other receivables

Receivables (including amounts from related entities) are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment losses. Trade and other receivables are presented as current assets unless payment is not due within 12 months from the reporting date. A receivable is impaired when there is objective evidence that receivables may not be recoverable. An impairment charge is recognised when the financial impact of the non-recoverable receivables can be reliably measured. At each balance sheet date, the Company assesses whether any receivables are impaired, recognising an impairment charge if required.

The impairment charge is recognised in the statement of profit or loss and other comprehensive income with a corresponding reduction of the carrying value of the receivables through an offsetting provision account.

In subsequent periods, objective evidence may indicate that an impairment charge should be reversed. The impairment charge is reversed in the statement of profit or loss and comprehensive income of that future period and the related provision for impairment is reduced.

(ii) Non-financial assets

(a) Deferred acquisition costs

(i) Life insurance contracts and life investment contracts

The costs incurred in acquiring specific life insurance contracts include commission, advertising, policy issue and underwriting costs, agency expense and other sales costs. The proportion of life insurance contract acquisition costs not recovered by specific charges received from the contract holder at inception is deferred provided that these amounts are recoverable out of future profit margins. The deferred amounts are recognised in the balance sheet as a reduction in life insurance policy liabilities and are amortised through the statement of profit or loss and other comprehensive income over the expected duration of the relevant policies.

f. Liabilities

Financial liabilities

Recognition

Financial liabilities are recognised when an obligation arises.

Classification and measurement

The Company classifies financial liabilities into the following categories: trade and other payables, life insurance contract liabilities and life investment contract liabilities. Financial liabilities are recognised initially at fair value plus directly attributable transaction costs.
The accounting policy for each category of financial liability mentioned above and the determination of its fair value is set out below in the note for the relevant item.

Derecognition

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

(a) Trade and other payables

Trade and other payables (including amounts due to related entities) represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within normal credit terms. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

(b) Policy liabilities

Policy liabilities have been determined in accordance with applicable accounting and prudential standards. The relevant accounting standards are AASB 1038 Life Insurance Contracts and AASB 139 Financial Instruments: Recognition and Measurement. The relevant prudential standard is LPS 340 Valuation of Policy Liabilities issued by the Australian Prudential Regulation Authority (APRA) under the Life Act. Policy liabilities consist of life insurance contract liabilities and life investment contract liabilities.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

f. Liabilities (continued)

Financial liabilities (continued)

(b) Policy liabilities (continued)

(i) Life insurance contract liabilities

The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as Margin on Services (MoS). Under MoS the excess of premium received over claims and expenses (the profit margin), is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the service), hence the term MoS. The movement in life insurance contract liabilities recognised in the statement of profit or loss and comprehensive income reflects the planned release of this margin and includes experience variations to the planned margin. For life insurance contracts, policy liabilities are typically determined using the projection method, whereby estimates of policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods) are projected into the future.

The Company uses the accumulation method which can be used if it produces results that are not materially different from those produced by the projection method. This assumes that future premium inflows will correspond in timing to future claims and expense outflows. The profit margin (not specifically identified) is the excess of premium income over claims and expenses. Where the policy liability is determined by the projection method, LPS 340 requires profit to be related to one or more financially measurable indicators of the provision of service called 'profit carriers'. The assumptions applied in the calculation of the policy liabilities are reviewed at each reporting date.

(ii) Life investment contract liabilities

Life investment contract liabilities consist of a financial instrument and a management services element. For investment-linked business, the financial instrument element represents the unit liability to the policyholder and is designated at fair value through the profit or loss in accordance with AASB139, subject to a minimum of the current surrender value. Movements in fair value are recognised through the statement of profit or loss and other comprehensive income. The liability to the policyholder is closely linked to the performance and value of the assets (after tax) that back those liabilities. The fair value of such liabilities is therefore the same as the fair value of those assets (after tax) charged to the policyholders. For fixed term immediate annuity contracts, there is no active market and hence no quoted market value. Fair value was therefore determined using a discounted cash flow approach, with the cash flows that were discounted being annuity payments plus a risk margin, and the discount rate being a market swap yield curve (Australian Financial Markets Association swap reference rates). The management services element refers to activities and cash flows arising from management services provided, representing the deferral of fees yet to be earned and expenses yet to be recognised and is measured in accordance with the relevant accounting standards.

(c) Provisions

(i) Provision for dividend

Provision is made for the amount of any dividend declared and approved by the Directors on or before the end of the financial year but not distributed at balance date.

(ii) Other provisions

Provisions are recognised for present obligations arising from past events where a payment (or other economic transfer) is likely to be necessary to settle the obligation and can be reliably estimated.

g. Shareholders' equity

Shareholders' equity consists of share capital and reserves. Ordinary shares are recognised at the amount paid up per ordinary share net of directly attributable issue costs. Reserves consist of retained earnings and other reserves.

h. Goods and Services Tax (GST)

The Company is part of a GST consolidated group, of which Westpac is the head entity. Any GST payable or recoverable is presented on the balance sheet as a net payable to or receivable from Westpac.

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not deemed recoverable from the Australian Taxation Office (ATO). In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are recognised inclusive of GST.

Cash flows are presented on a net basis. The GST components of cash flows arising from investing or financing activities which are ultimately recoverable from, or payable to the ATO, are presented as operating cash flows.

Commitments are disclosed net of the amount of GST ultimately recoverable from, or payable to, the ATO.

i. Offsetting

Financial assets and liabilities are presented net in the balance sheet when the Company has a legally enforceable right to offset them in all circumstances and there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

j. Rounding of amounts

All amounts have been rounded in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, to the nearest thousand dollars, unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 2. Critical accounting assumptions and estimates

Applying the Company's accounting policies require the use of judgement, assumptions, and estimates which impact the financial information. The significant assumptions and estimates used are as follows.

Life insurance contract liabilities

Life insurance contract liabilities are computed using statistical or mathematical methods (refer to Note 13), which are expected to give approximately the same results as if an individual liability was calculated for each contract. These computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of the life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance contract liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

- the cost of providing benefits and administering contracts;
- mortality and morbidity experience, which includes policyholder benefits enhancements;
- discontinuance rates, which affects the Company's ability to recover the cost of acquiring new business over the life of the contracts; and
- the discount rate of projected future cash flows.

Regulation, competition, interest rates, taxes, securities market conditions and general economic conditions also affect the estimation of life insurance liabilities.

Reinsurance assets

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Company may not receive the amounts due and these amounts can be reliably measured.

Note 3. Revenue

	2018 $'000	2017 $'000
Life insurance contract premium revenue	33,578	47,867
Less: insurance premiums ceded to reinsurers	(7,833)	(8,925)
Net life insurance premium revenue	**25,745**	**38,942**

	2018 $'000	2017 $'000
Life insurance contract premium revenue	33,578	47,867
Total premiums	**33,578**	**47,867**

Note 4. Investment income

	2018 $'000	2017 $'000
Interest	35	51
Distributions from financial assets at fair value through profit or loss	983	1,071
Net realised and unrealised losses on financial assets at fair value through profit or loss	(17)	(32)
Total investment income	**1,001**	**1,090**

Note 5. Claims expense

	2018 $'000	2017 $'000
Death and disability	11,902	18,333
Annuities	16	32
Total life insurance claims expense	**11,918**	**18,365**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 6. Other expenses

	2018 $'000	2017 $'000
Policy acquisition expenses - life insurance contracts		
Commission	1,866	3,927
Other acquisition expenses	935	1,979
Other acquisition expenses - ultimate parent entity	385	378
Other acquisition expenses - other related entities	434	381
Total policy acquisition expenses - life insurance contracts	**3,620**	**6,665**
Policy acquisition expenses - life investment contracts		
Commission	-	1
Total policy acquisition expenses - life investment contracts	**-**	**1**
Total policy acquisition expenses	**3,620**	**6,666**
Policy maintenance expenses - life insurance contracts		
Commission - ultimate parent entity	886	982
Policy maintenance expenses	6,368	2,726
Policy maintenance expenses - ultimate parent entity	1,362	1,511
Policy maintenance expenses - other related entities	1,537	1,523
Total policy maintenance expenses - life insurance contracts	**10,153**	**6,742**
Other maintenance expenses	44	70
Total policy maintenance expenses	**10,197**	**6,812**
Total other expenses	**13,817**	**13,478**

Analysis of expense by nature:		
Commission expense	2,752	4,910
Service fee expense	6,814	8,498
Other expenses	4,251	70
Total other expenses	**13,817**	**13,478**

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 7. Components of profit

	2018 $'000	2017 $'000
Components of profit related to movement in life insurance liabilities		
Planned margins of revenues over expenses released	6,396	9,821
Difference between actual and assumed experience	(109)	578
Change in valuation methods and assumptions	572	(1,563)
Components of profit related to movement in life investment liabilities		
Planned margins of revenues over expenses released	1	2
Difference between actual and assumed experience	(25)	(12)
Investment earnings on assets in excess of:		
Life insurance policy liabilities in statutory funds	558	666
Life investment policy liabilities in statutory funds	7	8
Shareholder fund	135	90
Profit for the year	**7,535**	**9,590**

Note 8. Income tax

The income tax expense for the year reconciles to the profit before income tax as follows:

	2018 $'000	2017 $'000
Profit before income tax	**10,793**	**13,701**
Tax at the Australian company tax rate of 30%	3,238	4,111
The effect of amounts which are not deductible in calculating taxable income		
Non-deductible items	7	-
Prior period adjustment	13	-
Total income tax expense	**3,258**	**4,111**

	Note	2018 $'000	2017 $'000
Income tax analysis			
Income tax expense comprises:			
Current income tax		4,180	4,111
Movement in deferred tax	(i)	(935)	-
Income tax for under provision in prior years	(ii)	13	-
Income tax expense		**3,258**	**4,111**
(i) Deferred income tax expense included in income expense comprises:			
Increase in deferred tax assets	11	(935)	-
Total deferred income tax benefit		**(935)**	**-**
(ii) Adjustments for current tax of prior periods included in income tax expense comprises:			
Increase in current tax liabilities		13	-
Total adjustments for current tax of prior periods		**13**	**-**

The effective tax rate was 30% in 2018 (2017: 30%).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 9. Financial assets at fair value through profit or loss

	Note	2018 $'000	2017 $'000
Balance at beginning of the year		55,831	55,384
Additions		17,996	30,518
Distributions invested		974	1,045
Management fee rebate		71	35
Disposals		(21,837)	(31,119)
Unrealised losses		(17)	(32)
Part 9 transfer	21(f)	(40,359)	
Balance at end of the year		**12,659**	**55,831**
Investments held in:			
Pendal Managed Cash Fund		12,659	55,789
Debt securities		-	42
Total financial assets at fair value through profit or loss		**12,659**	**55,831**

The Pendal Managed Cash Fund (formerly known as BT Wholesale Managed Cash Fund), that the Company invests into, is considered to be a structured entity for the purposes of AASB 12 Disclosure of Interests in Other Entities. A structured entity is one which has been designed such that voting or similar rights are not the dominant factor in determining who controls the entity (for example, when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements). Structured entities are generally created to achieve a specific and well defined objective with restrictions over their ongoing activities. The Company enters into transactions with unconsolidated structured entities to facilitate specific investment opportunities and its interest in the structured entity comprises of any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity. This includes the holding of units in unlisted funds.

The objective of the Pendal Managed Cash Fund is to seek near term gains and invests primarily in cash and short term fixed interest securities. The fund issues units which are redeemable at the holder's option and entitles the holder to a proportional share of the fund's net assets.

The carrying value of the investment represents the Company's maximum exposure to loss and is approximately 0.3% (2017: 1.5%) of the total funds under management in the Pendal Managed Cash Fund. The Company does not provide any material financial or other support to the unconsolidated structured entity.

Note 10. Trade and other receivables

	2018 $'000	2017 $'000
Premiums receivable	-	1,611
Reinsurance recoveries receivable on claims payable	-	3
Reinsurance recoveries receivable on paid claims	-	657
Investment income accrued and receivable	24	87
Total trade and other receivables	**24**	**2,358**

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 11. Deferred tax assets

The balance comprises temporary differences attributable to:

	Note	2018 $'000	2017 $'000
Amounts recognised in the statement of profit or loss and other comprehensive income			
Provisions		935	-
Part 9 transfer	21(f)	(935)	-
Total deferred tax assets		-	-

Movements	Note	Provisions $'000	Total $'000
Balance at 1 October 2016		-	-
Recognised in the statement of profit or loss and other comprehensive income		-	-
Balance at 30 September 2017		-	-
Recognised in the statement of profit or loss and other comprehensive income		935	935
Part 9 transfer	21(f)	(935)	(935)
Balance at 30 September 2018		-	-

Note 12. Trade and other payables

	2018 $'000	2017 $'000
Trade payables	-	1,424
Amounts due to:		
Ultimate parent entity - current tax liabilities	7	452
Ultimate parent entity - other	7	928
Total trade and other payables	**14**	**2,804**

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 13. Policy liabilities

a. Assumptions and methodology applied in the valuation of life insurance contracts

(i) Actuarial information

The Company, following the Part 9 Scheme (refer to Note 22), no longer has any policy liabilities to be valued. The Company, continues to hold a Life Insurance licence and is required to comply with the APRA Life Insurance Prudential Standards. The effective date of the Financial Condition Report (FCR) on policy liabilities and prudential capital is 30 September 2018. The FCR was prepared by Andrew Katon FIAA (Appointed Actuary). The FCR indicates the Appointed Actuary is satisfied as to the accuracy of the data upon which the policy liabilities have been determined.

(ii) Valuation method

Life insurance contract liabilities are calculated in accordance with Prudential Standard LPS 340 Valuation of Policy Liabilities issued by the Australian Prudential Regulation Authority (APRA). For life insurance contracts LPS 340 requires policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policyholders and premiums are received. This methodology is known as Margin on Services and is further described in Note 1(f).

The profit carriers used for the major product groups of life insurance contracts in order to achieve the systematic release of planned margins are as follows:

Product group	Method	Profit carrier
Individual		
Lump sum risk	Accumulation	Premiums less claims and expenses (implied)
Income stream risk	Accumulation	Premiums less claims and expenses (implied)
Tower lump sum and income risk	Accumulation	Premiums less claims and expenses (implied)
AEGON lump sum risk	Accumulation	Premiums less claims and expenses (implied)
Group		
Lump sum risk	Accumulation	Premiums less claims and expenses (implied)
Income stream risk	Accumulation	Premiums less claims and expenses (implied)
Consumer Credit Insurance	Accumulation	Premiums less claims and expenses (implied)

(iii) Disclosure of assumptions

Discount rates

For life insurance contracts, the risk free rate (10 year Commonwealth Government bond rate) was used as the discount rate. For fixed term immediate annuity contracts, the discount rates used to determine fair value were Australian Financial Markets Association swap reference rates based on "mid" swap spreads against AUD bond futures prices/rates.

Discount rates assumed were:	2018	2017
Risk business	N/A	2.9% p.a.
Fixed term immediate annuity business	N/A	1.4% p.a. to 2.2% p.a.

Inflation rates

The inflation rates assumed were:	2018	2017
Risk business	N/A	1.9% p.a.

Future expenses and indexation

Unit costs were based on current expense levels and budgeted expenses in the year following the report date. The unit costs vary by product line and class of business and are indexed by the rate of inflation set out above. Benefits and policy fees under many products are automatically linked to the inflation rate above. The assumption for future take-up of indexation options was based on the Company's previous experience.

Rates of taxation

Rates of taxation have been assumed to remain at current levels into the future. The rates of taxation applicable to the taxable income of significant classes of business are as follows:

Class of business	2018	2017
Ordinary life insurance	N/A	30%
Complying superannuation	N/A	15%
Current annuity/pension business	N/A	Exempt
Other business including accident and disability	N/A	30%
Shareholder fund	N/A	30%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 13. Policy liabilities (continued)

a. Assumptions and methodology applied in the valuation of life insurance contracts (continued)

(iii) Disclosure of assumptions (continued)

Mortality

Pricing basis assumptions, which are best estimate, have been adopted. The assumptions are based on Australian industry experience and vary by sex, age and product. The base mortality table used was IA95-97 (a table derived by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997). Adjustments were made to this base table to reflect varying underwriting requirements and exclusions for the Company's range of products and to allow for more recent industry trends.

Disability-Lump sum

Total and Permanent Disablement assumptions, which are best estimate, are based on reinsurance premium rates and vary by sex, age and product.

Disability income

The assumptions are based on Australian industry experience and vary by sex and age. The base morbidity table used was IAD89-93 (a table derived by the Institute of Actuaries of Australia based on Australian insured lives experience from 1989 to 1993). Adjustments were made to this base table to reflect recent industry trends.

Trauma

Trauma assumptions, which are best estimate, are based on reinsurance premium rates and vary by sex and age.

Voluntary discontinuance

Pricing basis assumptions, which are best estimate, have been adopted. The assumptions were set after considering Company and industry experience.

(iv) Insurance risk sensitivity analysis – life insurance contracts

For life insurance contracts, changes to assumptions used in the valuation of policy liabilities can have an effect on the financial results. The changes (+/-10%) in key assumptions (mortality, morbidity and discontinuance rates) would not have a material impact on the reported profit and equity of the Company.

Changes to discount rate used in the valuation of policy liabilities can have an effect on the financial results. The table below illustrates how a change in the discount rate would impact the reported profit and equity of the Company:

30 September 2018		**Effect on profit**		**Effect on policy liabilities**		**Effect on equity**	
		2018		**2018**		**2018**	
		$'000		**$'000**		**$'000**	
		Increase/(decrease)		**Increase/(decrease)**		**Increase/(decrease)**	
	Change in assumption	**Gross of reinsurance**	**Net of reinsurance**	**Gross of reinsurance**	**Net of reinsurance**	**Gross of reinsurance**	**Net of reinsurance**
Statutory fund 1	+50bp	-	-	-	-	-	-
Statutory fund 2	+50bp	-	-	-	-	-	-

30 September 2017		**Effect on profit**		**Effect on policy liabilities**		**Effect on equity**	
		2017		**2017**		**2017**	
		$'000		**$'000**		**$'000**	
		Increase/(decrease)		**Increase/(decrease)**		**Increase/(decrease)**	
	Change in assumption	**Gross of reinsurance**	**Net of reinsurance**	**Gross of reinsurance**	**Net of reinsurance**	**Gross of reinsurance**	**Net of reinsurance**
Statutory fund 1	+50bp	(954)	(954)	1,363	1,363	(954)	(954)
Statutory fund 2	+50bp	-	-	-	-	-	-

(v) Life insurance contract liability adequacy

Life insurance contract policy liabilities are tested for liability adequacy by comparing them to the best estimate of future cash flows. Liabilities are grouped into related product groups and each group is tested against the best estimate of future cash flows. If the liability of a related product group is less than best estimate the liability is increased with the expense being recorded directly through the statement of profit or loss and comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 13. Policy liabilities (continued)

b. Reconciliation of movements in policy liabilities

	Note	2018 $'000	2017 $'000
Net life insurance contract liabilities			
Decrease in insurance contract policy liabilities		(6,153)	(27)
Decrease in reinsurers' share of life insurance contract policy liabilities		634	1,544
Total (decrease)/increase in net life insurance contract liabilities		**(5,519)**	**1,517**
Net life investment contract liabilities			
Life investment contract revenue debited to policyholders		(16)	(31)
Total decrease in net life investment contract liabilities		**(16)**	**(31)**
Analysis of movement in policy liabilities by nature			
Life insurance contract liabilities			
Gross life insurance contract liabilities at beginning of the period		(825)	(798)
Decrease in life insurance contract policy liabilities		(6,153)	(27)
Part 9 transfer	21(f)	6,978	-
Gross life insurance contract liabilities at end of the period		**-**	**(825)**
Reinsurers' share of life insurance contract liabilities at beginning of the period		(3,212)	(4,756)
Decrease in reinsurers' share of life insurance contract policy liabilities		634	1,544
Part 9 transfer	21(f)	2,578	-
Reinsurers' share of life insurance contract liabilities at end of the period		**-**	**(3,212)**
Net life insurance contract liabilities		**-**	**(4,037)**
Life investment contract liabilities			
Gross life investment contract liabilities at beginning of the period		39	70
Life investment contract revenue debited to policyholders		(16)	(31)
Part 9 transfer	21(f)	(23)	-
Total life investment contract liabilities		**-**	**39**
Net policy liabilities		**-**	**(3,998)**
Expected to be realised within 12 months		-	(90)
Expected to be realised in more than 12 months		-	(3,908)
Net policy liabilities		**-**	**(3,998)**

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 13. Policy liabilities (continued)

c. *Life insurance risk*

Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. This exposure is transferred to the Company through its underwriting process.

The primary life insurance products offered by the Company were Term Life, a stepped premium product where lump sum benefits are payable on death or, as an optional benefit, on permanent disability or a specified trauma event, and Income Protection products. In addition to this product, the Company offered a range of life and income insurance products which are tailored to meet the needs of its customers. All contracts are written within Australia.

Through its life insurance contracts the Company was exposed to pricing, acceptance and management of mortality, morbidity and longevity risks. The Company also faces the risk of loss due to movements in financial markets such as investment returns and interest rate risk which are managed as part of market risk, refer Note 14(c).

To mitigate its exposure to insurance risk the Company has embedded a number of key controls in its operations.

The design, development and distribution of products carrying insurance risk was managed to ensure that policy wording and promotional materials are clear. The Company undertook comprehensive market research to ensure potential risks with the insurance product are captured and understood. Product prices were set through a process of financial analysis, including a review of previous experience and specific product design features.

The type and nature of life insurance risk accepted was determined by reference to underwriting procedures designed to ensure that risks are sufficiently diversified across occupational sectors, geographical locations and by level of sum insured. Underwriting was managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff.

Claims were managed through a dedicated claims management team, with a formalised claims acceptance process, including claims acceptance limits and appropriate training of staff. Claims experience was regularly assessed and appropriate reserves are established to reflect up to date experience and any anticipated future events.

The Company also reinsured (ceded) insurance risk to manage its exposure to large claims which lie outside predetermined risk tolerance limits, and to reduce the Company's net liability on large individual risks.

As the life insurance contracts written by the Company were mostly on individual insured persons rather than on groups there is minimal concentration of insurance risk in the Company's portfolio of life insurance contracts.

d. *Asset liability management (ALM)*

The principal aims of the Company's ALM are to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders and, to achieve long term investment returns in excess of its obligations under insurance and investment contracts. The Company's ALM also formed an integral part of the insurance risk management policy, to ensure in each period, sufficient cash flow was available to meet liabilities arising from insurance contracts.

e. *Components of net life insurance contract liabilities:*

	2018 $'000	2017 $'000
Future policy benefits	-	30,912
Balance of future revenues	-	(34,949)
Net life insurance contract liabilities	**-**	**(4,037)**

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 14. Financial risk management

The Company operates within, and is governed in accordance with the Risk Management Framework (RMF) of the BT Financial Group (BTFG), a division of Westpac. BTFG operates under the Westpac Group risk management framework, and aligns with Westpac Group risk appetite, policies and frameworks that are designed to manage risk effectively and efficiently. Adherence to these frameworks is essential to BTFG's ongoing management of its risks.

The BTFG RMF has been adopted by the Board.

Governance Framework

The Company's governance framework overseeing effective risk management consists of:

- Defined roles and responsibilities for Board, its committees and various management committees and forums that oversee particular aspects of the business;
- Documents setting out the policies, practices and procedures adopted by the Company to ensure they operate in accordance with prudential requirements and good governance principles; and
- A dedicated risk management function that supports the BTFG RMF and execution of the Company's Risk Management Strategy, including its Risk Appetite Statement.

The Company has adopted the Westpac Group Delegated Authority Policy Framework. This framework enables management to make decisions which are not reserved for the Board. The Board has delegated certain risk management responsibilities to the following committees and personnel.

Board Committees

Board Audit Committee

The primary role of the Committee is to assist the Board by providing an objective, non-executive review of the effectiveness of the Board's financial reporting and financial management framework. Ultimate responsibility for the integrity of the Company's financial reporting and audit rests with the Board. The duties of the Committee include:

- Oversight of statutory reporting requirements, financial reporting requirements, professional accounting requirements and internal and external audit, and make recommendations to the Board;
- Review and assess the integrity of the financial statements and the financial reporting framework;
- Review regular reports from management and external auditor regarding the Company's internal financial controls and compliance, disclosure, legal and regulatory requirements; and
- Consider advice from the Appointed Actuary in respect of the valuation of insurance liabilities, including an assessment of the overall financial condition of the Company.

Board Risk Committee

The primary role of the Committee is to assist the Board by providing an objective, non-executive oversight of the implementation and operation of the Board's risk and compliance management frameworks. Ultimate responsibility for the Company's risk and compliance process rests with the Board. The duties of the Committee include:

- Oversight of the risk and compliance management frameworks, and Risk Management Strategy, including its Reinsurance Management Strategy and make recommendations to the Board;
- Review the compliance processes that are in place to anticipate and effectively manage the impact of regulatory change on operations;
- Advising the Board on current and future risk appetite, capital strength and Risk Management Strategy;
- Oversight of senior management's implementation of the Risk Management Strategy;
- Review and oversight of performance, objectives, appointment and removal of the Chief Risk & Compliance Officer, BTFG; and
- Consider advice from the Appointed Actuary on the suitability and adequacy of the Risk Management Framework.

Westpac Board Remuneration Committee

The Board has delegated remuneration matters to the Westpac Board Remuneration Committee. The primary role of this Committee is to review and make recommendations to the Westpac Board that ensure coherent remuneration policies and practices that fairly and responsibly reward individuals having regard to performance, the Risk Management Framework, the law and the highest standards of governance. The Westpac Group remuneration policy outlines the mandatory requirements that must be reflected in the design and management of all reward arrangements across the Westpac Group.

The Appointed Actuary

The Appointed Actuary is responsible for providing a report on the financial condition of the Company to the Board. The report is considerate of current solvency and capital adequacy, together with consideration of a range of factors such as the premium rates, policy conditions, reinsurance arrangements, risks faced by the insurer and other related matters.

The Appointed Actuary also provides advice in respect of the value of the insurance liabilities calculated in accordance with prudential standards.

BTFG Risk Review Committee

The role of the Committee is to have management and oversight across all of the BTFG group categories of risk, and ensure that there is an integrated approach to managing risks across all of the BTFG Entities and the BTFG Business Units. It is a senior management committee which is accountable to the Westpac Risk Committee. The Committee determines, approves, reviews, monitors and oversees the policies and procedures, strategies, frameworks, controls and systems to manage risk, including emerging risks, across the enterprise as a whole as well for the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 14. Financial risk management (continued)

Approach to risk management

The Company has adopted the Three Lines of Defence model for identifying and managing risk. This sets out how the Company is organised to ensure efficient and effective risk management.

1st Line of Defence – Risk identification, risk management and self-assurance

Divisional business units are responsible for identifying, evaluating and managing the risks that originate within approved risk appetite and policies. They are required to establish and maintain appropriate risk management controls, resources and self-assurance processes.

2nd Line of Defence – Establishment of risk management frameworks and policies and risk management oversight

The 2nd Line of Defence is a separate risk and compliance advisory, control, assurance and monitoring function which establishes frameworks, policies, limits and processes for the management, monitoring and reporting of risk. The 2nd Line of Defence evaluates and provides assurance over the adequacy and effectiveness of 1st Line controls and application of frameworks and policies and monitors the 1st Line's progress toward remediation of identified deficiencies. The 2nd Line of Defence can also approve certain risks outside the authorities granted to the 1st Line. The 2nd line includes Westpac Risk and Compliance Centres of Excellence, BTFG Risk, which includes Core Risk and Business Unit Facing risk teams, and a designated BTFG Compliance function.

3rd Line of Defence – Independent assurance

Westpac Group Audit is an independent assurance function that evaluates and opines on the adequacy and effectiveness of both 1st and 2nd Line risk management approaches and tracks remediation progress, with the aim of providing the Board with comfort that the Company's governance, risk management and internal controls are operating effectively.

Financial Risks

a. Credit risk

Credit risk is the risk of financial loss where a customer or counterparty fails to meet their financial obligations to the Company or the broader Westpac Group. The Company is subject to the Westpac Credit Risk Management Framework. This framework defines what constitutes credit risk for the Company and provides the basis for managing credit risk. A key driver of credit risk is in the Company's reinsurance activities, particularly counterparty exposure and counterparty performance management.

The following policies and procedures established through the Risk Management Strategy, Credit Risk Management Framework and Reinsurance Management Strategy are used to mitigate the Company's exposure to credit risk.

(i) Exposures to counterparties are monitored and controlled to ensure:

- significant deterioration in credit quality is identified;
- credit risk management information is accurate and complete; and
- excessive concentrations of credit risk are identified and controlled.

(ii) Credit risk limits, counterparty exposure limits and acceptable credit quality ratings for investment assets of the Company are defined within the Credit Risk Management Framework and managed for the Company by the appointed investment portfolio managers. Compliance with these limits is monitored.

(iii) Credit risk in respect of customer balances is actively monitored and losses incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document until expiry, when the policy is either paid up or terminated.

(iv) As part of its overall risk management strategy the Company cedes a proportion of its insurance risk. While these cessions mitigate insurance risk, the recoverable from reinsurers expose the Company to credit risk. Exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored. Reinsurance is placed according to a pre-approved panel of reinsurers that have a strong credit rating.

Concentration of risk is managed by adherence to counterparty limits. As at 30 September 2018 $nil of reinsurance recoveries on paid claims was due from a single reinsurer (2017: $477 thousand).

Maximum credit risk exposure

The Company's maximum exposure to credit risk, in respect of its financial assets, without taking account of any collateral or other credit enhancements is determined as follows:

- Financial assets recognised on the balance sheet – the carrying amount; and
- Financial guarantees granted – the maximum amount the Company would have to pay if the guarantees were to be called upon.

The Company's maximum exposure to credit risk as of 30 September 2018 is $15,736 thousand (2017: $62,395 thousand).

Collateral held

No collateral is held or provided on the financial assets of the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 14. Financial risk management (continued)

a. Credit risk (continued)

Credit quality of financial assets that are neither past due nor impaired

The following table provides information regarding the credit risk exposure of the Company. The credit quality of those financial assets that are neither past due nor impaired is shown by classifying those assets according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating.

30 September 2018	**Neither past due nor impaired**						**Past due but not impaired**	**Total**
	AAA	**AA**	**AA-**	**A**	**Not rated[1]**	**Total**		
	($'000)	**($'000)**	**($'000)**	**($'000)**	**($'000)**	**($'000)**	**($'000)**	**($'000)**
Cash and cash equivalents	-	-	3,053	-	-	3,053	-	3,053
Financial assets at fair value through profit or loss	-	-	-	-	12,659	12,659	-	12,659
Premiums receivable	-	-	-	-	-	-	-	-
Reinsurance recoveries receivable	-	-	-	-	-	-	-	-
Investment income accrued and receivable	-	-	-	-	24	24	-	24
Total	**-**	**-**	**3,053**	**-**	**12,683**	**15,736**	**-**	**15,736**

30 September 2017	**Neither past due nor impaired**						**Past due but not impaired**	**Total**
	AAA	**AA**	**AA-**	**A**	**Not rated[1]**	**Total**		
	($'000)	**($'000)**	**($'000)**	**($'000)**	**($'000)**	**($'000)**	**($'000)**	**($'000)**
Cash and cash equivalents	-	-	4,206	-	-	4,206	-	4,206
Financial assets at fair value through profit or loss	-	-	-	-	55,831	55,831	-	55,831
Premiums receivable	-	-	-	-	1,611	1,611	-	1,611
Reinsurance recoveries receivable	-	-	660	-	-	660	-	660
Investment income accrued and receivable	-	-	-	-	87	87	-	87
Total	**-**	**-**	**4,866**	**-**	**57,529**	**62,395**	**-**	**62,395**

[1] Not rated – unrated financial assets at fair value through profit or loss comprise investments in units in managed schemes (unit trusts). These investments are predominantly held with Pendal Group Limited (formerly known as BT Investment Management Limited).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 14. Financial risk management (continued)

b. Liquidity risk

Liquidity risk is the risk of being unable to fund assets and meet obligations as they fall due under a wide range of operating circumstances including an inability to adequately fund liabilities due to lower than expected cash inflows from premiums, investment income, capital injections, dividends and loans; or cash outflows for claims and redemptions, debt service requirements, tax payments, dividends and expenses.

The Company is subject to the BTFG Liquidity Risk Management Framework, which operates alongside the Westpac Group Liquidity Risk Management Framework to provide coverage across all BTFG businesses. This framework defines what constitutes liquidity risk and provides the basis for managing funding and liquidity risk. Liquidity risk management focuses primarily on ensuring sufficient cash is available to meet liabilities arising from insurance and investment policies.

The primary means the Company uses to manage liquidity risk are:

- Ensuring the investment of assets that are backing insurance liabilities are held in liquid assets that closely match the maturity of liabilities;
- Ensuring the investment of assets backing capital are held in appropriately liquid assets;
- Defining the minimum level of liquid funds at call within 48 hours to be held by each insurance entity;
- Monitoring of liquid asset levels to ensure that holdings of liquid assets, together with other cash inflows, are sufficient to meet cash flow obligations to policyholders and other creditors;
- Liquidity modelling is carried out which considers the Company's ability to fund under both normal conditions and during a crisis situation; and
- Investments are made through recognised exchange markets.

The Company has no significant concentration of liquidity risk.

Maturity profiles

The following table summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted repayment obligations, except for insurance contract liabilities, where maturity profiles are determined on the discounted estimated timing of net cash outflows.

30 September 2018	Up to 1 year [(1)] ($'000)	1 to 5 years ($'000)	Over 5 years ($'000)	Total ($'000)
Insurance contract liabilities net of reinsurance ceded	-	-	-	-
Investment contract liabilities	-	-	-	-
Trade payables	-	-	-	-
Amounts due to related entities	14	-	-	14

30 September 2017	Up to 1 year [(1)] ($'000)	1 to 5 years ($'000)	Over 5 years ($'000)	Total ($'000)
Insurance contract liabilities net of reinsurance ceded	(108)	(693)	(3,236)	(4,037)
Investment contract liabilities	18	21	-	39
Trade payables	1,424	-	-	1,424
Amounts due to related entities	1,380	-	-	1,380

(1) "Up to 1 year" are all commitments which are either contractually due within the time frame payable on demand or in the case of insurance liabilities where the estimated timing of associated cash outflows is expected within the timeframe.

The following table shows the estimated timing of future net cash flows in respect of insurance contract liabilities. These consist of expected future outgoings (claims, expenses, commissions, reinsurance premiums) less expected future income (premiums, reinsurance claim recoveries). All values are discounted to the valuation date using the discount rate shown in Note 13(a).

	Less than 1 Mth ($'000)	1 Mth to 3 Mths ($'000)	3 Mths to 1 Year ($'000)	1 Year to 5 Years ($'000)	Over 5 Years ($'000)	Total ($'000)
30 September 2018	-	-	-	-	-	-
30 September 2017	(6)	(14)	(88)	(693)	(3,236)	(4,037)

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Note 14. Financial risk management (continued)

b. Liquidity risk (continued)

Maturity profiles (continued)

The following table shows the maturity profile of the fixed term annuities in statutory fund 2. These consist of discounted net cash flows in respect of annuity contracts.

30 September 2018	Less than 1 Mth ($'000)	1 Mth to 3 Mths ($'000)	3 Mths to 1 Year ($'000)	1 Year to 5 Years ($'000)	Over 5 Years ($'000)	Total ($'000)
Annuities	-	-	-	-	-	-

30 September 2017	Less than 1 Mth ($'000)	1 Mth to 3 Mths ($'000)	3 Mths to 1 Year ($'000)	1 Year to 5 Years ($'000)	Over 5 Years ($'000)	Total ($'000)
Annuities	2	3	13	21	-	39

c. Market risk

Market risk is the risk of an adverse impact on earnings resulting from changes in market factors such as foreign exchange rates (currency risk), interest rates (interest rate risk), commodity prices and equity prices. This includes interest rate risk – the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities. The main risks that the Company faces due to the nature of its investments and liabilities are interest rate and price risk.

The following policies and procedures are established to mitigate the Company's exposure to market risk:

- Trading authorities and responsibilities are clearly delineated at all levels to ensure accountability;
- A structured system of limits and reporting of exposures against these exists for all trading activities; and
- Models are used to determine risk and profit/loss and are independently reviewed on a regular basis.

(i) Interest rate risk

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shapes of yield curves.

Financial instruments with floating rate interest expose the Company to cash flow interest rate risk, whereas financial instruments with fixed rate interest expose the Company to fair value interest rate risk. The Company manages its investment portfolios by maintaining an appropriate mix of fixed and variable rate instruments. The Company invests in high quality, liquid fixed interest securities, units in fixed interest and floating rate interest managed investment schemes and cash having regard to the durations of the underlying liabilities. The Company is also exposed to interest rate risk on obligations arising from a number of its life insurance and life investment contracts. A "risk free" interest rate is applied as the discount rate in the calculation of policyholder liabilities for life insurance contracts.

The Company manages its exposure to changes in interest rates arising between certain fixed rate obligations on its non unit-linked life investment contracts and floating rate investments backing those liabilities through the use of floating to fixed interest rate swaps. These swaps have the economic effect of converting floating rate obligations to fixed rates creating a matched net fixed rate position. Where the liability to investment contract holders is directly linked to the assets backing that liability (i.e. unit-linked business) there is no residual interest rate risk to the shareholder. The Company's retained exposure to interest rate risk arising from its life insurance and life investment contracts is detailed below. The Company has no significant concentration of interest rate risk.

Interest rate risk sensitivity analysis

The table below shows the estimated impact on the Company's profit after tax and equity as at 30 September 2018 and 30 September 2017, of a 1% reasonably possible change in interest rates with all other variables held constant.

	30 September 2018		30 September 2017	
Change in variables	**Impact on profit after tax (1) ($'000)**	**Impact on equity ($'000)**	**Impact on profit after tax (1) ($'000)**	**Impact on equity ($'000)**
+100 basis points	110	110	420	420
-100 basis points	(110)	(110)	(420)	(420)

(1) Determined net of taxation at the prima facie rate of 30%.

The method used in deriving sensitivity information and significant variables did not change from the previous period.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 14. Financial risk management (continued)

c. Market risk (continued)

(ii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company is subject to an internal capital adequacy assessment process. This framework defines what constitutes price risk for the Company and provides the Company with a framework for managing this risk. The Company's exposure to price risk primarily arises from investments in units in managed investment schemes (unit trusts) not held for the account of unit-linked business. The Company manages its exposure to price risk by applying investment limits at a transaction and portfolio level and by sector and market. The Company has no significant concentration of price risk.

Price risk sensitivity analysis

The potential impact of a change in the market value of the Company's unit trust investments, on profit after tax and equity as at 30 September 2018 and 2017, is shown in the sensitivity analysis below. The change in variable is measured by reference to a range of quoted stock market indices used by management to benchmark the Company's investments in unit trusts.

	30 September 2018		30 September 2017	
Change in variables	**Impact on profit after tax (1)**	**Impact on equity**	**Impact on profit after tax (1)**	**Impact on equity**
	($'000)	**($'000)**	**($'000)**	**($'000)**
+300 basis points	266	266	1,172	1,172
-300 basis points	(266)	(266)	(1,172)	(1,172)

(1) Determined net of taxation at the prima facie rate of 30%.

The method used in deriving sensitivity information and significant variables did not change from the previous period.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 14. Financial risk management (continued)

d. Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy.

The Company has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- unadjusted quoted prices in active markets for identical assets and liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for assets or liabilities, either directly (as prices) or indirectly (derived from prices) (level 2); and
- inputs for assets and liabilities that are not based on observable market data (unobservable inputs) (level 3).

Fair value is determined as follows:

- Cash assets at face value of the amounts deposited;
- Investments in unlisted unit trusts by reference to the prevailing redemption prices at the reporting date, which inherently includes transaction costs;
- Receivables at amortised cost less provision for impairment losses, which is the best estimate of their fair value, as they are settled within a short time;
- Payables at amortised cost, which is the best estimate of their fair value, as they are settled within a short time;
- Investments in money market and fixed and floating interest rate securities at last sales price or, if such prices are not available, at prices for securities of comparable maturity, quality and type;
- Listed equities and trusts at bid price with no allowance made for transaction costs that may be incurred upon disposal;
- Exchange traded futures and options at bid price;
- Over-the-counter contracts on broker or dealer price quotations or prices for securities with similar credit risk, maturity and yield characteristics; and
- Forward foreign currency contracts on the rates of exchange ruling on the reporting date. Only the net unrealised gains/losses are accounted for in the balance sheet. The principal is held outside of the balance sheet.

30 September 2018	Quoted market prices (Level 1) ($'000)	Valuation techniques (Market observable) (Level 2) ($'000)	Valuation techniques (Non-market observable) (Level 3) ($'000)	Total ($'000)
Assets				
Financial assets at fair value through profit or loss	-	12,659	-	12,659
Total assets carried at fair value	**-**	**12,659**	**-**	**12,659**

30 September 2017	Quoted market prices (Level 1) ($'000)	Valuation techniques (Market observable) (Level 2) ($'000)	Valuation techniques (Non-market observable) (Level 3) ($'000)	Total ($'000)
Assets				
Financial assets at fair value through profit or loss	-	55,831	-	55,831
Total assets carried at fair value	**-**	**55,831**	**-**	**55,831**

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities and certain unlisted unit trusts exchange traded derivatives. The Company did not have any level 1 investments as at year end.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include certain unlisted unit trusts. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. The Company did not have any level 3 investments as at year end. There were no transfers between levels during the financial year.

For financial instruments that are not carried at fair value, fair value is provided for disclosure purposes only. For financial instruments that are considered short term in nature such as trade receivables and payables, the carrying value is a reasonable approximation of fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 14. Financial risk management (continued)

e. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Company is subject to the Westpac Operational Risk Management Framework. The framework establishes roles and responsibilities and the measurement, management, monitoring and reporting of operational risks, including risk and control management, and scenario analysis. The Company is also subject to Westpac Incident Management Policy and Westpac Issues Management Policy.

The key components of the Operational Risk Management Framework are:

- Governance, Projects, Capital, Data, Acceptance, Indicators and Reporting;
- Incident Management and Controls Assurance; and
- Scenario analysis and External Loss Events.

Consistent with the three lines of defence model, roles and responsibilities are documented for each line of defence.

Complementing this framework, the Company maintains a database of operational incidents. An analysis of the causes of operational incidents is used to enable the Company to implement measures to avoid or reduce future losses. The measures adopted may include revising processes, improving failed or inappropriate controls or strengthening emergency plans.

f. Internal capital adequacy assessment process (ICAAP)

The ICAAP is the over-arching process through which the level of capital is determined and maintained to ensure it is adequate and commensurate with the Board's risk appetite and complies with all prudential requirements. The ICAAP is a key element of, and is governed by the Risk Management Framework.

In the course of protecting policyholder interests, the Company seeks to manage capital to ensure it is adequate to provide for the risks that arise from operations conducted by the Company. The ICAAP is an important tool that assists the Company to achieve this and provides crucial insights into the Company's approach to managing capital.

The ICAAP uses regulatory capital requirements prescribed by the Australian Prudential Regulation Authority (APRA) as the foundation upon which a target capital structure is built. The ICAAP has been integrated into the existing Risk Management Framework. While the ICAAP is governed within the Risk Management Framework, other policies of the larger BTFG and Westpac risk management systems also support the ICAAP.

The Board is fundamentally responsible for the ICAAP of the Company and retains responsibility for approval and implementation of the process. The Board Risk Committee, BTFG Chief Executive Officer, Appointed Actuary, BTFG Chief Financial Officer, BTFG Chief Risk & Compliance Officer, the GM Insurance supported by Senior Management play key roles, assisting the Board in applying the ICAAP to the Company.

g. Capital and regulatory risk

The Company holds capital to protect customers, creditors and shareholders against unexpected losses to a level consistent with the Company's regulatory requirements and risk appetite, as approved by the Board of Directors. In addition, each statutory fund within the Company must meet the solvency and capital requirements of the Life Act at all times. In order to meet these requirements the Company holds capital equal to its prescribed capital amount (PCA), plus a '"buffer" capital to ensure the Company has sufficient assets to satisfy capital adequacy during unplanned negative performance. The Company also undertakes strategic investments to further the business of both the Company and BTFG. Therefore, free assets of the Company are represented by shareholder capital in excess of regulatory capital requirements, plus target surplus.

The Company is regulated by APRA and is required to hold a minimum amount of capital to meet capital requirements specified in the Life Act and Prudential Standard LPS 110 Capital Adequacy Standard.

As detailed within LPS 110, the Company also maintains a prescribed amount of capital in the shareholder fund. The prescribed amount of capital is maintained so that, regardless of the outcome of the method used for determining the PCA, a life company's prescribed capital amount (being the sum of the PCA for each of its funds) cannot be less than $10 million.

The Company's capital resources includes contributed equity attributable to shareholders of $15,000 thousand (2017: $15,000 thousand). The Company's capital position is monitored on a regular basis and adjustments are made, as required, in light of changes in economic conditions and changes in the Company's risk profile. The Company's capital position is reported to the Board quarterly.

Other capital maintained

The Company holds capital based on its view of the risks involved in its business. This capital is above the prudential capital requirement and the requirements of the Life Act. The amount in excess of the statutory requirements is a buffer to ensure the Company has sufficient assets to satisfy capital adequacy in the event of poor performance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 14. Financial risk management (continued)

h. Capital adequacy

The following table shows the capital adequacy calculated in accordance with the APRA prudential framework for the year ended 30 September 2018.

	Statutory fund 1 ($'000)	Statutory fund 2 ($'000)	Shareholder fund ($'000)	Total ($'000)
Net Assets	-	-	15,722	15,722
Regulatory adjustment applied in calculation of Tier 1 capital	-	-	-	-
Common Equity Tier 1 Capital	-	-	15,722	15,722
Capital Base:	**-**	**-**	**15,722**	**15,722**
Prescribed capital amount comprises:				
Asset Risk	-	-	-	-
Asset Concentration Risk	-	-	87	87
Operational Risk	-	-	-	-
Combined stress scenario adjustment	-	-	37	37
Additional prescribed capital to reach minimum	-	-	9,876	9,876
Prescribed capital amount	**-**	**-**	**10,000**	**10,000**
(a) Capital Base	-	-	15,722	15,722
(b) Prescribed capital amount	-	-	10,000	10,000
Capital in excess of prescribed capital amount = (a) - (b)	-	-	5,722	5,722
Capital adequacy multiple (%) = (a) / (b)	-	-	157%	157%

Capital adequacy for the year ended 30 September 2017

	Statutory fund 1 ($'000)	Statutory fund 2 ($'000)	Shareholder fund ($'000)	Total ($'000)
Net Assets	53,025	1,177	9,387	63,589
Regulatory adjustment applied in calculation of Tier 1 capital	(34,949)	-	-	(34,949)
Common Equity Tier 1 Capital	18,076	1,177	9,387	28,640
Capital Base:	**18,076**	**1,177**	**9,387**	**28,640**
Prescribed capital amount comprises:				
Asset Risk	161	3	20	184
Asset Concentration Risk	-	-	-	-
Operational Risk	1,436	-	-	1,436
Combined stress scenario adjustment	-	1	9	10
Additional prescribed capital to reach minimum	-	-	8,370	8,370
Prescribed capital amount	**1,597**	**4**	**8,399**	**10,000**
(a) Capital Base	18,076	1,177	9,387	28,640
(b) Prescribed capital amount	1,597	4	8,399	10,000
Capital in excess of prescribed capital amount = (a) - (b)	16,479	1,173	988	18,640
Capital adequacy multiple (%) = (a) / (b)	>1000%	>1000%	112%	286%

i. Disclosures on asset restrictions

Investments in the life funds can only be used within the restrictions imposed under the Life Act. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund or as distributions when capital requirements are met.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 15. Provisions

	2018 $'000	2017 $'000
Provisions for:		
Non-lending losses	-	-
Total provisions	-	-

Movement in provision during the financial year is set out below:

	Note	Non-lending losses $'000	Total $'000
Balance at 1 October 2016		-	-
Additions		-	-
Balance at 30 September 2017		-	-
Additions		3,118	3,118
Part 9 transfer	21(f)	(3,118)	(3,118)
Balance at 30 September 2018		-	-

Note 16. Share capital

	2018 $'000	2017 $'000
Share capital		
Ordinary share capital, fully paid	15,000	15,000
Total share capital	**15,000**	**15,000**

Movements in share capital	$'000	$'000
Opening balance	15,000	15,000
Closing balance	**15,000**	**15,000**

Movements in share capital	2018 No.	2017 No.
Ordinary shares at beginning of the year	1,000,005	1,000,005
Ordinary shares at end of the year	**1,000,005**	**1,000,005**

Ordinary shares entitle the holder to participate in dividends and, in the event of the Company winding up, to a share of the proceeds in proportion to the number of and amount paid on the shares held.

Each ordinary share entitles the holder to one vote, either in person or by proxy, at a shareholder meeting.

The Company's capital management objectives are to:

- ensure sufficient capital resource to support the Company's business and operational requirements; and
- maintain sufficient capital to exceed externally imposed capital requirements.

Periodic reviews of the Company's capital requirements are performed to ensure the Company is meeting its objectives. Capital is defined as share capital plus reserves.

Note 17. Retained profits

	Note	2018 $'000	2017 $'000
Balance at beginning of the year		48,589	49,499
Net profit for the year		7,535	9,590
Part 9 transfer	21(f)	(48,402)	-
Dividends paid	18	(7,000)	(10,500)
Retained profits at end of the year		**722**	**48,589**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 18. Dividends

	2018 $'000	2017 $'000
Ordinary dividend of $3.50 per fully paid share paid in March 2018	3,500	-
Ordinary dividend of $3.50 per fully paid share paid in December 2017	3,500	-
Ordinary dividend of $2.00 per fully paid share paid in September 2017	-	2,000
Ordinary dividend of $2.50 per fully paid share paid in June 2017	-	2,500
Ordinary dividend of $1.00 per fully paid share paid in March 2017	-	1,000
Ordinary dividend of $5.00 per fully paid share paid in December 2016	-	5,000
Total dividends	**7,000**	**10,500**

Note 19. Economic dependency

The normal trading activities of the Company depends significantly on the product sales generated by the sales channels of the ultimate parent entity, Westpac and its controlled entities.

Note 20. Auditor's Remuneration

The auditor's remuneration for audit of the financial statements of $23,573 (2017: $23,225) was paid by the ultimate parent entity, Westpac.

Note 21. Related party disclosures

a. Parent entities

Westpac Financial Services Group Limited is the immediate parent entity. Westpac Banking Corporation is the ultimate parent entity.

b. Key management personnel (KMP)

Key management personnel are those who, directly or indirectly, have authority and responsibility for planning, directing and controlling the activities of the Company. This includes all Executive and Non-Executive Directors.

	2018 $	2017 $
Remuneration of KMP		
Short-term benefits	715,996	589,765
Other long-term benefits	7,460	7,342
Post-employment benefits	40,532	36,147
Termination benefits	-	4,919
Share-based payments	86,335	86,923
Total remuneration of KMP	**850,323**	**725,096**

Key management personnel remuneration was paid by the relevant employing entities within the Westpac Group, with the exception of share-based payments which consist of shares, options and other equity instruments issued by the ultimate parent entity. In addition to the remuneration disclosed above, certain Directors of the Company also receive remuneration for their role as key management personnel of related responsible entities and trustee companies. This remuneration is separately disclosed in the financial statement of those responsible entities.

c. Controlled unit trusts

There are no interests in controlled unit trusts.

d. Transactions with related parties

The following transactions occurred with related parties:

Type of transaction	Class of related party	Note	2018 $	2017 $
Interest received	Ultimate parent entity	4	35,262	51,344
Distribution from unit trust	Other related entities		887,267	997,238
Service fee expense	Ultimate parent entity		1,747,142	1,889,242
Service fee expense	Other related entities		1,971,286	1,904,437
Commission expense	Ultimate parent entity		885,873	982,140
Dividends paid	Parent entity	18	7,000,000	10,500,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 21. Related party disclosures (continued)

e. Outstanding balances

The following balances are outstanding at the reporting date in relation to transaction with related parties:

Balance type	Class of related party	Note	2018 $	2017 $
Cash and cash equivalents	Ultimate parent entity	24(a)	3,052,983	4,205,889
Financial assets at fair value through profit or loss	Other related entities	9	12,658,568	55,789,456
Current tax liabilities	Ultimate parent entity	12	7,372	452,438
Trade and other payables	Ultimate parent entity	12	6,570	927,709

f. Part 9 transfer

On 29 August 2018 the Federal Court of Australia approved the Scheme to transfer all of the Company's business to Westpac Life Insurance Services Limited under Part 9 of the Life Insurance Act 1995. The effective date of the transfer was 1 September 2018. Details of the Scheme are provided in Note 22.

Details of the assets, liabilities and shareholders' equity transferred at 1 September 2018 are listed below:

	2018 $'000
Assets	
Cash and cash equivalents	1,204
Financial assets at fair value through profit or loss	40,359
Trade and other receivables	2,753
Reinsurers' share of life insurance contract liabilities	2,578
Deferred tax assets	935
Total assets	**47,829**
Liabilities	
Trade and other payables	3,264
Provisions	3,118
Life insurance contract liabilities	(6,978)
Life investment contract liabilities	23
Total liabilities	**(573)**
Shareholders' equity	
Retained profits	48,402
Total shareholders' equity	**48,402**

g. Terms and conditions

All transactions have been made on normal commercial terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 22. Statutory fund information

On 29 August 2018 the Federal Court of Australia approved the Scheme to transfer all of the Company's business to Westpac Life Insurance Services Limited (WLISL) under Part 9 of the Life Act. The effective date of the transfer was 1 September 2018.

Under the terms of the Scheme, all of the life policies referable to the Company's Statutory Fund 1 and 2 that were in force were transferred to Statutory Fund 1 of WLISL. The transfer included the transfer of all of the assets and liabilities in the Company's Statutory Fund 1 and 2, including the Policy Liabilities, however the assets and liabilities of the Company's Shareholder Fund were not transferred to WLISL.

The following details show the number of statutory funds operated by the Company as at the end of the financial year, the types of business written and the major products within each statutory fund.

As at 30 September 2018

Statutory fund	Types of business	Major products
Statutory fund 1	No products maintained under this statutory fund	Not applicable
Statutory fund 2	No products maintained under this statutory fund	Not applicable

As at 30 September 2017

Statutory fund	Types of business	Major products
Statutory fund 1	Non unit-linked ordinary and super business	Yearly renewable term
		Trauma recovery
		Income protection
		Accidental death
		Accidental injury
		Consumer credit insurance
Statutory fund 2	Immediate annuities	Fixed term annuity

Abbreviated information by fund for the year ended 30 September 2018	Note	Statutory fund no. 1 [1] insurance $'000	Statutory fund no. 2 [1] investment $'000	Total statutory funds $'000	Shareholder fund $'000	Total all funds $'000
Financial assets at fair value through profit or loss		-	-	-	12,659	12,659
Reinsurers' share of life insurance contract liabilities		-	-	-	-	-
Other assets		-	-	-	3,077	3,077
Life insurance contract liabilities		-	-	-	-	-
Life investment contract liabilities		-	-	-	-	-
Other liabilities		-	-	-	14	14
Contributed equity		-	-	-	15,000	15,000
Retained profits		-	-	-	722	722
Part 9 transfer	21(f)	-	-	-	-	-
Net life insurance premium revenue		25,745	-	25,745	-	25,745
Investment income		798	10	808	193	1,001
Net life insurance claims expense		7,655	16	7,671	-	7,671
Change in life insurance contract policy liabilities		(5,519)	-	(5,519)	-	(5,519)
Change in life investment contract policy liabilities		-	(16)	(16)	-	(16)
Other expenses		13,810	7	13,817	-	13,817
Profit/(loss) before income tax expense		10,597	3	10,600	193	10,793
Net profit/(loss) for the year		7,418	(18)	7,400	135	7,535

(1) Profit and loss items are for the 11 months to 31 August 2018, and Balance sheet reflects the position as at 30 September 2018 post the transfer of assets under the Part 9 transfer that occurred on 1 September 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 22. Statutory fund information (continued)

Abbreviated information by fund for the year ended 30 September 2017	Statutory fund no. 1 insurance $'000	Statutory fund no. 2 investment $'000	Total statutory funds $'000	Shareholder fund $'000	Total all funds $'000
Financial assets at fair value through profit or loss	49,501	41	49,542	6,289	55,831
Reinsurers' share of life insurance contract liabilities	3,212	-	3,212	-	3,212
Other assets	2,285	1,175	3,460	3,104	6,564
Life insurance contract liabilities	(825)	-	(825)	-	(825)
Life investment contract liabilities	-	39	39	-	39
Other liabilities	2,798	-	2,798	6	2,804
Contributed equity	5,500	500	6,000	9,000	15,000
Retained profits	47,525	677	48,202	387	48,589
Net life insurance premium revenue	38,942	-	38,942	-	38,942
Investment income	951	11	962	128	1,090
Net life insurance claims expense	11,336	31	11,367	-	11,367
Change in life insurance contract policy liabilities	1,517	-	1,517	-	1,517
Change in life investment contract policy liabilities	-	(31)	(31)	-	(31)
Other expenses	13,466	12	13,478	-	13,478
Profit/(loss) before income tax expense	13,574	(1)	13,573	128	13,701
Net profit/(loss) for the year	9,502	(1)	9,501	89	9,590

Note 23. Offsetting financial assets and financial liabilities

Financial assets and liabilities are presented net in the balance sheet when the Company has a legally enforceable right to offset them in all circumstances and there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. The gross assets and liabilities behind the net amounts reported in the balance sheet are disclosed in the table below.

		Effects of offsetting on balance sheet		
30 September 2018	Note	Gross amounts $'000	Amounts offset $'000	Net amounts reported on the balance sheet $'000
Financial assets:				
Trade and other receivables	10	24	-	24
Financial liabilities:				
Trade and other payables	12	14	-	14

		Effects of offsetting on balance sheet		
30 September 2017	Note	Gross amounts $'000	Amounts offset $'000	Net amounts reported on the balance sheet $'000
Financial assets:				
Trade and other receivables	10	2,358	-	2,358
Financial liabilities:				
Trade and other payables	12	2,804	-	2,804

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 24. Notes to the cash flow statement

	2018 $'000	2017 $'000
(a) Reconciliation of cash and cash equivalents		
Cash with ultimate parent entity	3,053	4,206
Cash and cash equivalents at end of year	**3,053**	**4,206**

	2018 $'000	2017 $'000
(b) Reconciliation of net cash provided by/(used in) operating activities to net profit for the year		
Net profit for the year	7,535	9,590
Adjustments:		
Interest and distribution from financial assets at fair value through profit or loss reinvested	(982)	(1,071)
Fair value adjustment of financial assets at fair value through profit or loss	17	32
Changes in operating assets and liabilities:		
Decrease/(increase) in assets		
Trade and other receivables	(483)	756
Reinsurance policy liability ceded	634	1,544
Deferred tax assets	(935)	-
Increase/(decrease) in liabilities		
Trade and other payables	920	(527)
Current tax liabilities	(445)	(621)
Provision	3,118	-
Policy liabilities	(6,169)	(58)
Net cash provided by/(used in) operating activities	**3,210**	**9,645**

(c) Reconciliation of liabilities arising from financing activities

There are no liabilities arising from financing activities.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 25. Contingent liabilities and commitments

The Company may from time to time be exposed to contingent liabilities in respect of claims, potential claims and court proceedings against the Company. In addition the Company enters into various types of investment contracts that give rise to contingent liabilities, which include financial futures and exchange traded options. These contracts are generally entered into for the management of investment portfolios. The possibility that a liability may arise may be contingent on an uncertain future event, or if considered possible, it may not be probable.

The Company does not have any commitments.

Note 26. Subsequent events

No matters have arisen since the year ended 30 September 2018 which is not otherwise dealt with in this report, that has significantly affected or may significantly affect the operations of the Company, the results of its operations or the state of affairs of the Company in subsequent periods.

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ST. GEORGE LIFE LIMITED

DIRECTORS' DECLARATION

For the year ended 30 September 2018

In the Directors' opinion:

a. the financial statements and notes for the year ended 30 September 2018 are in accordance with the Corporations Act 2001, including :
   (i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   (ii) giving a true and fair view of the Company's financial position as at 30 September 2018 and its performance for the financial year ended on that date; and

b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(a) includes a statement that the financial statement also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors.

Director

Director

Sydney 12 /12/2018

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Independent auditor's report

To the members of St. George Life Limited

Our opinion

In our opinion:

The accompanying financial report of St. George Life Limited (the Company) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 30 September 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the balance sheet as at 30 September 2018
- the statement of changes in equity for the year then ended
- the cash flow statement for the year then ended
- the statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Emphasis of matter - going concern no longer appropriate

We draw attention to Note 1.a.(i) in the financial report, which discusses the directors' intention to wind up the business prior to the next reporting period end of 30 September 2019. As a result, the financial report has been prepared on a liquidation basis and not on a going concern basis. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 September 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

This description forms part of our auditor's report.

PricewaterhouseCoopers

R Balding
Partner

Sydney
12 December 2018

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